

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6316

BILL NUMBER: SB 346

NOTE PREPARED: Dec 4, 2002

BILL AMENDED:

SUBJECT: Minimum Wage; Prevailing Wage.

FIRST AUTHOR: Sen. Howard

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases Indiana's minimum wage from \$5.15 to \$7.15 per hour. The bill requires a contractor that receives public financial assistance to pay prevailing wages on all construction projects undertaken by the contractor in Indiana. It provides that a contractor that knowingly or intentionally violates this requirement commits a Class B misdemeanor. The bill provides that a contractor that commits two offenses within 12 months is disqualified from receiving public financial assistance for three years.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The bill would have the following impacts.

Minimum Wage: The state has about 740 employees that are paid less than \$7.15 per hour. The state impact to increase the hourly wage to \$7.15 per hour for those employees would be about \$912,800 on an annual basis. As of October 2, 2002, there were 713 intermittent, 23 temporary, and 5 regular positions being paid less than \$7.15 per hour. The breakdown by job classification is: 370 natural resources attendants-VI, 293 laborer-V, 23 general student assistants, and 5 with other classifications.

Prevailing Wage: The influence of the change in the prevailing wage statute is expected to vary by project. However, a number of studies suggest that wage determination provisions generally increase the labor cost of public works projects from 5% to 16%. The precise impact of the change made by this bill cannot be determined.

Some studies argue for prevailing wage-type systems on the grounds that they lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force. If such benefits were realized, the state

could realize savings in the long run. Unfortunately, data limitations and questionable methodology limit the conclusiveness of many studies on prevailing wage laws.

Secondary impact: If, as studies have shown, common wage requirements increase the costs of labor to the state, then higher wages may have the following effects:

- State income tax collections could increase (assuming no decrease in employment levels), stimulating consumption and further increasing sales tax revenue;
- Debt incurred to finance projects could increase due to higher project costs, requiring additional bonding or property taxes; and
- Funds may be used that otherwise would have been available for other public works projects. Similarly, capital expenses could be greater, making less funding available for noncapital expenses in project budgets.

The information in this fiscal note will be updated if a more precise estimate of the overall cost associated with this bill becomes available.

Explanation of State Revenues: See *Explanation of State Expenditures*, above.

Penalty Provision: If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class B misdemeanor is \$1,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Explanation of Local Expenditures: *Penalty Provision:* A Class B misdemeanor is punishable by up to 180 days in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Penalty Provision:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Department of Labor, State Agencies.

Local Agencies Affected: Trial courts, local law enforcement agencies, local units of government.

Information Sources: Department of Personnel Staffing Database.

Fiscal Analyst: Chuck Mayfield, 317-232-4825